

---

# ISDA Collateral Management Transformation Toolkit: Custodial Onboarding Process

---

## Important Note and Disclaimer

*This document is intended as an information resource only. It does not contain legal advice and should not be considered a guide to or explanation of all relevant issues or considerations the aspects of collateral management described herein. You should consult your legal advisors and any other advisor you deem appropriate in considering the issues discussed herein. ISDA assumes no responsibility for any use to which any of these materials may be put.*

## CONTENTS

<b>ISDA Collateral Management Transformation Toolkit: Building on the Collateral Blueprint .....</b>	<b>3</b>
<b>Custodial Onboarding Process Tool .....</b>	<b>4</b>
<b>Key Challenges and Pain Points .....</b>	<b>5</b>
Onboarding and UMR Milestones.....	5
Typical Onboarding Timelines .....	5
Client Onboarding Workflow.....	6
Custodian Sales/Relationship Management .....	6
KYC/Compliance .....	7
Credit.....	7
Legal .....	7
Operations.....	8
Post-onboarding.....	8
Managing Custodian Risk.....	9
<b>Opportunities for Improvement.....</b>	<b>10</b>
<b>Sample Use Case.....</b>	<b>11</b>
Background .....	11
Implementation.....	11
Automated Settlement .....	12
<b>Implementation .....</b>	<b>13</b>
Implementing the Custodial Onboarding Project Plan.....	13
UMR Custodial Onboarding .....	13
Technology Considerations .....	16
<b>Cost-Benefit Analysis .....</b>	<b>17</b>
<b>Conclusion .....</b>	<b>19</b>

## ISDA COLLATERAL MANAGEMENT TRANSFORMATION TOOLKIT: BUILDING ON THE COLLATERAL BLUEPRINT

In 2017, ISDA published A Blueprint for the Optimal Future State of Collateral Processing<sup>1</sup>. This document was designed to provide a set of principles that the industry could work toward to meet the ever-changing demands and challenges of the collateral management process.

To build on these recommendations, ISDA has developed the Collateral Management Transformation Toolkit (CMT Toolkit). While ISDA recognizes that each organization has unique operational challenges with respect to the management of collateral, the CMT Toolkit is intended to help ISDA members identify some of the collateral management operational processes that could benefit from efficiency improvements.

The objective of the CMT Toolkit is to provide resources that will help ISDA member firms:

- Assess current collateral management processing challenges;
- Identify opportunities for collateral management processing improvement;
- Review sample use cases;
- Build a business case for a project and then a project implementation plan; and
- Measure pre- and post-implementation key performance indicators.

Based on input from ISDA members in 2019, the following collateral management operational topics were prioritized, and a tool has been developed for each:

- Portfolio reconciliation/dispute management;
- Collateral settlement automation;
- **Custodial onboarding process;**
- Digitizing legal documentation and streamlining into operating systems.

---

<sup>1</sup> A Blueprint for the Optimal Future State of Collateral Processing, October 2017, [www.isda.org/a/eVKDE/Collateral-Infrastructure-V8.pdf](http://www.isda.org/a/eVKDE/Collateral-Infrastructure-V8.pdf)

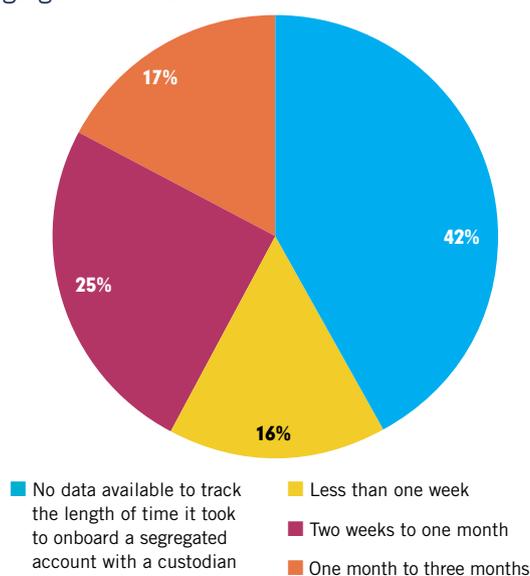
## CUSTODIAL ONBOARDING PROCESS TOOL

The purpose of the custodial onboarding process tool is to help firms build their capacity and efficiency when onboarding custodians for segregated accounts. This will increase operational proficiency, reduce operational and counterparty risk, and improve liquidity and capital measures.

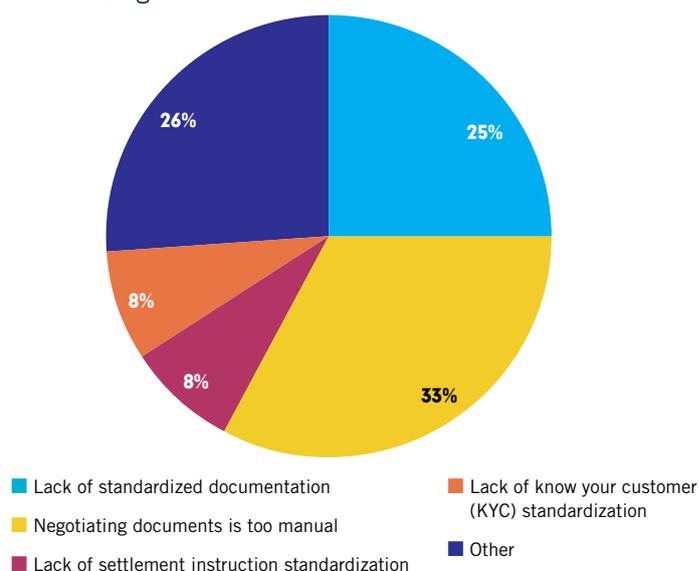
The custodial onboarding process tool is designed to be applied by any firm, but will likely be used mostly by buy-side entities as pledgers (collateral givers) and secured parties (collateral receivers). This tool does not purport to address all of the custodial onboarding challenges individual firms may face, and each market participant should ultimately make its own independent determination with respect to its own business operations, in consultation with its legal advisors and any other advisors it deems appropriate.

In 2019, ISDA conducted a collateral management transformation survey<sup>2</sup>, which identified the current custodial onboarding process as a time-consuming challenge that could benefit from improvement (see Figure 1 and Figure 2).

**Figure 1:** How much time does it take to onboard a segregated account with a custodian?



**Figure 2:** What are the top issues for the delay with onboarding a custodian?



This initiative may help those firms that are included in phases five and six of the initial margin (IM) requirements of the uncleared margin rules (UMR). However, this document is intended to be used more broadly, whenever onboarding with a custodian is required to process and hold collateral in a segregated account.

**There are two types of segregation structures – triparty and third party. More information regarding the differences of these two structures is available on the ISDA Margin InfoHub<sup>3</sup> and in the following ISDA documents:**

- Triparty versus third-party segregated accounts overview<sup>4</sup>
- Triparty and third-party suggested operational practices<sup>5</sup>

<sup>2</sup> 104 ISDA member firms participated in the survey

<sup>3</sup> ISDA Margin InfoHub available at [www.isda.org/category/margin/infohub/](http://www.isda.org/category/margin/infohub/)

<sup>4</sup> Segregated Approaches – Triparty and Third Party – Explained, November 2019, [www.isda.org/a/M52TE/Triparty-vs.-Third-Party-11.7.19.pdf](http://www.isda.org/a/M52TE/Triparty-vs.-Third-Party-11.7.19.pdf)

<sup>5</sup> Suggested Operational Practices for Settlement, Release, and Updates and Reporting of Triparty and Third Party Segregated Collateral, October 2019, [www.isda.org/a/s4WTE/Triparty-vs.-Third-Party-SOP-10.15.19.pdf](http://www.isda.org/a/s4WTE/Triparty-vs.-Third-Party-SOP-10.15.19.pdf)

## KEY CHALLENGES AND PAIN POINTS

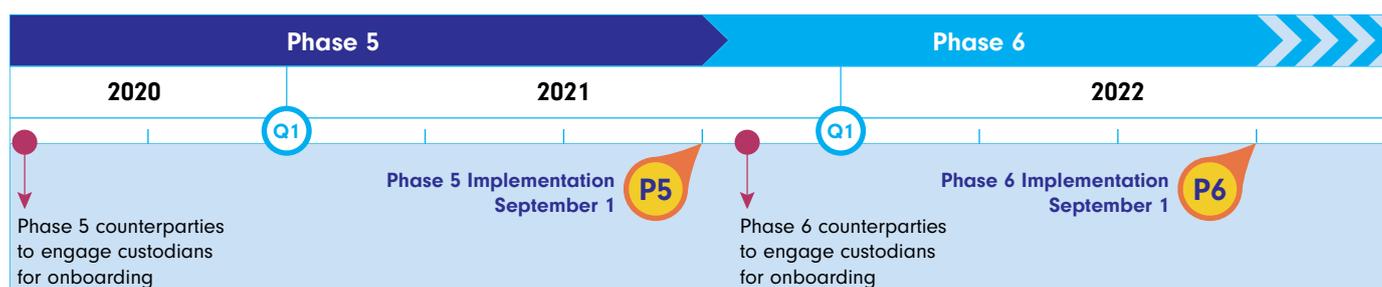
The custodial onboarding process is required when a new custodial relationship for a segregated account is being initiated. The process involves many functions and can, therefore, be resource- and time-consuming. However, it is necessary for custodians to meet their legal, regulatory and operational requirements before taking on a new client. There are a variety of implications for the custodial onboarding process, especially when planning for the UMR, including:

- **Legal:** Contracts with all necessary terms need to be in place between the custodian and the trading counterparties.
- **Regulatory:** Firms need to ensure they have a comprehensive understanding of their clients and their business activity, including ownership, persons with control and nature of the business, as well as any jurisdictional considerations.
- **Operational:** Operational terms need to be applied to accounts before these can be activated. This means ensuring key terms have been included in the firms' systems, operational controls are applied, counterparties are able to connect with one another, and reporting can be carried out.

### Onboarding and UMR Milestones

The following discussion focuses on the typical onboarding timing and workflow. A special case exists when a party is onboarding in order to comply with the UMR. In this case, there may be multiple parties onboarding at the same time, and any delay in establishing relationships may hinder the ability to trade. There are no regulatory fixed dates to submit information to custodians, so parties must work backwards from the compliance date. Early engagement is key. Figure 3 illustrates some of the key dates that will affect custodian onboarding for the UMR.

Figure 3: UMR Milestones



### Typical Onboarding Timelines

The onboarding process differs for each custodian and each new client. There are a multitude of factors that can affect the process. Firms should expect that in a best-case scenario without regulatory project pressures, the operational onboarding outlined in the workflow model in Figure 4 will take a minimum of one month after the segregation model analysis, custodian selection and legal document negotiation is completed. Several factors will affect onboarding timeline, including:

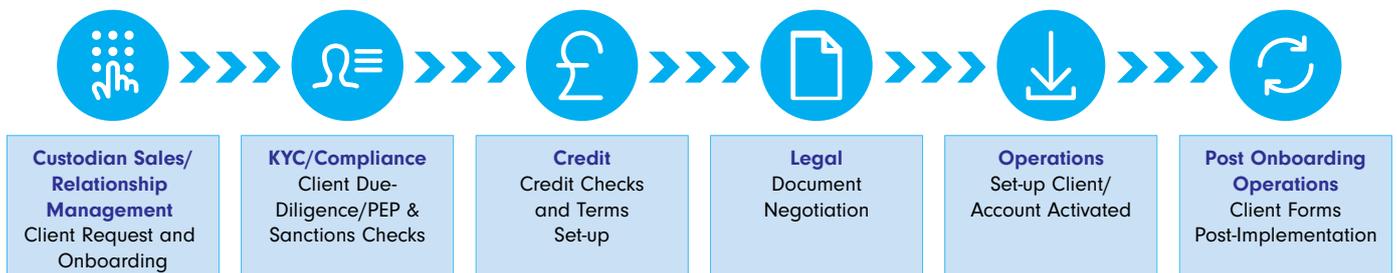
- **Clarity of requirements:** Clear direction and instructions by the custodian on how to complete the onboarding requirements.
- **Communication:** Open communication channels between all participants, including the custodian, collateral pledgor and collateral secured party.

- **Timeliness and transparency:** The ability to provide complete and accurate information and documents to the custodian, as well as the custodian's ability to review and process the information.
- **Complexity:** More complex contractual terms will extend the timeline for onboarding.
- **Technology:** Adopting the latest technologies to facilitate straight-through-processing, integrated workflow tools and automation of documentation will contribute to a more streamlined onboarding experience compared to firms that rely on spreadsheets and emails.
- **Counterparty/custodian capacity:** Any onboarding effort initiated in close proximity to a regulatory deadline may be slower, as industry legal, technical and business resources may be constrained.

## Client Onboarding Workflow

Figure 4 illustrates the typical roles and activities that take place as part of a custodial onboarding process. Each process will be slightly different, and activities can occur concurrently. The process is not always sequential.

**Figure 4:** Custodial Onboarding Roles and Responsibilities



## Custodian Sales/Relationship Management

The relationship management (RM) teams are the point of contact between the client and the custodian.

- The pledgor will introduce the secured party to the custodian.
- The RM team, or the designated point of contact, will initiate the onboarding process with the secured party.
- An initial call will usually be scheduled, instructional email delivered, and/or guides and documentation delivered to outline the onboarding requirements.

### Tips to Improve the Onboarding Timeline

- Carefully review documentation and onboarding materials provided by the custodian.
- Set up regular calls to discuss onboarding progress.
- Avoid any key person dependencies – emails should be directed to shared mailboxes and notes should be up to date on workflow tools.

## KYC/Compliance

The KYC/compliance teams carry out customer due diligence to ensure the custodian satisfies internal risk policies and meets all the regulatory requirements on anti-money laundering (AML) policies and procedures.

- KYC teams protect the custodian from potential fraud, money laundering and terrorist financing.
- Generally, the following documentation will be requested from the entity that is being onboarded:
  - Custodian new account opening forms;
  - Proprietary company documentation (eg, proof of existence, authorized persons and beneficial ownership); and
  - Collateral contracts (eg, the collateral management service agreement (CMSA), account control agreement (ACA) and eligible collateral schedule (ECS)).

### Tips to Improve the Onboarding Timeline

- Ownership structures provided should be clear and transparent, showing every layer up to the ultimate beneficial owner.
- Appropriately authorized persons need to have signed relevant contracts and proof of their authority.

## Credit

A common requirement for any legal entity onboarding to a custodian is a credit check by the custodian. Credit teams may assess a new pledgor and/or the secured party's creditworthiness to protect the custodian against financial loss.

- Credit teams review the financial statements and provide a credit rating.

### Tips to Improve the Onboarding Timeline

- Both parties should understand the specific contractual requirements of the custodian prior to the negotiations.
- Financial statements should be complete, recent (within the past financial year) and appropriately audited.

## Legal

Legal teams from the pledgor, the secured party and the custodian negotiate the terms of the client relationship with the secured party. The type of custodian relationship (triparty or third party) will determine the documentation, which entities are party to the respective agreement, and the negotiated terms required.

- All parties negotiate legal terms through a variety of documentation, including CMSAs, ACAs, ECSs and power of attorney (POA) documents.

### Tips to Improve the Onboarding Timeline

- Both counterparties can use ISDA Create, an online platform for the negotiation of contracts.
- If negotiations are conducted over email, it should be linked to a workflow tool so all correspondence and comments can be tracked by date.

## Operations

Once these phases have been completed, the operations teams can apply terms and conditions into systems and activate new accounts.

- Account profiles are set up based on specific data points captured by the custodian, including account numbers, unique legal entity identifiers (LEIs) and standard settlement instructions (SSIs).
- Account systems are updated with terms from legal contracts using automated infrastructure providers and International Organization for Standardization standards.
- Triparty custodians will import specific client details and data points to their operations system, such as legal entity name and LEI, along with credit support annex terms, including the ESC, haircuts and concentration limits.
- Connectivity requirements need to be tested to ensure instructions can be sent and received between counterparties.

### Tips to Improve the Onboarding Timeline

- Operations teams can often test connectivity with the client while other steps are being conducted.

## Post-onboarding

There can be additional requirements after the initial conditions have been met. A new pledgor may wish to open accounts with a secured party that has already onboarded with a custodian. As a result, additional information will be required in order to set up accounts.

- Although this may not require the full lifecycle to be completed, the operational set up is still required to open a new account.
- Obtaining POA may be required for third parties to operate accounts on behalf of their subsidiaries or clients.
- Tax forms for custodian tax reporting to authorities (eg, due to the Foreign Account Tax Compliance Act (FATCA)) may be required.

## Managing Custodian Risk

Once a custodian has been on-boarded, whether with a pledgor or secured party, it is important to maintain regular correspondence with the custodian and due diligence on the firm to manage custodian risk, including having access to intraday data via portals and automating end-of-day reports.

## OPPORTUNITIES FOR IMPROVEMENT

When first establishing a custodial onboarding process, the following tips will help facilitate efficient processing.

- ✓ Designate a contact person, with back-up team members, who will carry out the onboarding process. If the workload is large, divide assignments by custodian, counterparty or investment strategy/group.
- ✓ As a pledgor, determine which type of segregation structure you will be using – triparty or third party – and make contact with the custodian(s) as soon as possible to engage in onboarding discussions and requirements.
- ✓ As the secured party, reach out to each counterparty to ask which custodian and segregation structure they will be using and request an introduction to the respective custodian contact.
- ✓ As the secured party or the pledgor, be certain to obtain the custodian's specific onboarding requirements and project timeline.
- ✓ Prepare KYC documents and store them in a centralized location. Ensure all documents are up to date and set calendar reminders for any future updates that may be necessary. Be sure all key individuals can access and maintain the documents, with proper security measures in place.
- ✓ Establish an overall project plan with a specific workstream for each custodian/counterparty relationship. Be aware of cut-off dates for submitting documentation that the custodian may impose before a regulatory compliance date. Be as prompt as possible with document requests and turns of agreements.
- ✓ When establishing operational processing, use margin call, settlement and release and reporting automation. Be sure to include operational details with the project plan, such as setting up SSIs, establishing infrastructure onboarding and testing.
- ✓ Ensure all reporting requirements are included in documentation with the custodian at the time of onboarding.

## SAMPLE USE CASE

### Background

A mid-sized asset manager with both proprietary funds and separately managed accounts domiciled in the US and Cayman Islands has a number of '40 Act Funds with segregated collateral accounts and multiple custodians. The onboarding process to date has been ad hoc and infrequent and, at times in the past, it has been a critical path item for launching an investment strategy. There have not been any active measurements of resources or time parameters to date.

The firm has key people in legal, counterparty risk management, client relationship management, operations/collateral management and the front office who support custodial onboarding, but there is not a key individual or designated contact to drive the process and who would be accountable for all communication and tracking milestones. Each onboarding is different and can depend on the type of account structure, the client relationship manager, and the front-office team leading the investment strategy launch.

KYC materials are maintained in an electronic shared folder within the legal team, but it is usually the operations team that is in contact with the custodian. Accessing documents therefore requires multiple emails from the custodian to the operations team and then to legal and vice versa. Because each custodian's KYC requirements are different, the wrong documents are sometimes sent and requests from the custodian can take multiple attempts to be fulfilled.

Separately, the legal group is charged with negotiating the necessary documents, such as the ACA, CMSA and ECS, and they would be the point of contact for the custodians. Another workstream is responsible for operational onboarding of settlement instructions and segregated account release processing with the operations team.

### Implementation

In anticipation of the UMR IM requirements, the firm identified the need to establish multiple segregated account custodian/counterparty relationships for all derivatives trading investment strategies as pledgor. It also recognized the need to provide KYC materials to custodians and triparty providers, as these accounts will be a secured party to their counterparties.

As an efficiency initiative, the counterparty risk management team identified one key person to serve as the custodian onboarding coordinator for all custodians, counterparties and internal contacts, and to assemble all anticipated KYC documents, ACA negotiations and operational requirements. The counterparty risk management team also developed a central tracker for all internal contacts to access updates and receive requests/enquiries. The firm identified an electronic tool to negotiate the ACA and coordinate like-terms as efficiently as possible, and implemented automated settlement, segregated account release and reporting to both the pledgor and secured parties.

Since the asset manager oversees both private funds and separately managed accounts, it may choose the segregation structure and the custodian for the private funds. Meanwhile, the separately managed accounts require client outreach to determine the type of structure, whether the asset manager will be responsible for the legal documentation, and which custodians will be used. The client relationship management team worked with the legal team to develop a client outreach initiative to gather this information and maintain the details in the client relationship database, which generated reports for the coordinator. These reports helped the coordinator develop a workstream and timeline for each account/custodian/counterparty relationship.

To reduce the negotiation time of ACAs and the triparty ECSs, the firm began using an electronic negotiation tool that enables communication between the firms involved in each negotiation process, tracks changes and provides timely updates. The coordinator also met with each investment strategy team to determine optimal collateral to be included in each schedule, both for receiving and pledging, and this was used for the ESC negotiations.

### **Automated Settlement**

The collateral management team also implemented a straight-through automated margin call, settlement and reporting project, connecting with a margin call/affirmation service, along with a settlement, release and reporting automation service. Both services connect to a majority of the counterparties and custodians used by the firm's private funds and separately managed accounts. The coordinator is responsible for ensuring custodians have the necessary settlement instructions at time of onboarding.

## IMPLEMENTATION

### Implementing the Custodial Onboarding Project Plan

Before onboarding custodians, it is important to ensure there is a coordinated effort, with resources from compliance, legal, operations, client relationship management, front office and counterparty risk.

**Table A: Custodial Onboarding Project Plan**

Task	Details	Expected Date	Completed Date
<b>Appoint custodian onboarding coordinator</b>	Develop job description and announce position to all departments and external counterparty and custodian contacts		
<b>Collate all necessary KYC documents</b>	Reach out to each potential custodian for its KYC and onboarding checklist; store documents by investment strategy and ensure date is in document name for future maintenance ease		
<b>Establish custodian onboarding project management tool</b>	Use internal or third-party project management tool that can be accessed (read-only) by all team members and can produce ad hoc and regularly scheduled reports; establish access for all team members and provide overview/training		
<b>Triparty vs. third-party segregation models</b>	Assess both the triparty and third-party segregation models and document where each may or may not be appropriate for clients/firm and counterparty relationships		
<b>Eligible collateral schedules</b>	Meet with each investment strategy team to ensure optimal collateral (both giving and receiving) is documented		
<b>Implement electronic negotiation tool</b>	Research and implement a document negotiation tool, and ensure those who will need to approve any changes have access		
<b>Settlement instructions</b>	Working with the collateral management team, ensure that custodians have the necessary settlement instructions, including for release of collateral		

### UMR Custodial Onboarding

Specific to preparing for the UMR, counterparties need to decide which collateral model or structure they will adopt before selecting a custodian. A secured party may need to onboard with multiple custodians, depending on where the pledging counterparty holds its custodial relationships.

There are two types of segregation structures – triparty and third party. An entity may set up a third-party segregation structure to pledge to and receive from its counterparty’s triparty provider. Information on both collateral models is available on the ISDA Margin InfoHub<sup>6</sup>.

Each model has different KYC and onboarding requirements, and those requirements may differ from a pledgor’s and secured party’s perspective.

The **Third Party and Triparty Custodian Onboarding and Account Opening Implementation Checklist for UMR IM** is available on the ISDA Margin InfoHub<sup>7</sup>.

Table B provides an overview of the **Third-party Custodian Onboarding and Account Opening Implementation Checklist**, along with additional comments and explanations where applicable.

<sup>6</sup> ISDA Margin InfoHub available at [www.isda.org/category/margin/infocenter/](http://www.isda.org/category/margin/infocenter/)

<sup>7</sup> The Third Party and Triparty Custodian Onboarding and Account Opening Implementation Checklist for UMR IM was developed in conjunction with the asset management group of the Securities Industry and Financial Markets Association, [www.isda.org/a/yeVTE/Third-Party-and-Triparty-Checklists-September-2019.pdf](http://www.isda.org/a/yeVTE/Third-Party-and-Triparty-Checklists-September-2019.pdf)

**Table B:** Third-party Custodian Onboarding and Account Opening Implementation Checklist

Onboarding Activity	Custodian	Pledgor	Secured Party	Commentary / Explanation
Custodian notified of new custody of collateral account pairing	X	X		
KYC and AML review	X	X	X	KYC and AML checks need to be undertaken
Cash reinvestment options/discussion for cash balances	X	X	X	
Master custody agreement finalized	X	X		
Master custody agreement executed	X	X		
Account naming conventions and pairing confirmed	X	X		
Release authorization model; confirm instruction workflow	X	X	X	Single vs. dual; utility
Confirm custodian reporting/reconciliation	X	X	X	MT535
External parties release authorization model	X	X	X	Confirmation received from the pledgor entity on the release model agreed with the secured party (single authorization or dual)
Inbound/outbound trade instruction/confirmation/reporting testing	X	X	X	Pledging entities' delivery mechanism and format; secured party entities' delivery mechanism and format
Account control agreement finalized	X	X	X	Include language for authorization model, utility and reporting requirements
Account control agreements executed	X	X	X	
Account opening	X			
Confirmation of reinvestment vehicles to set up		X	X	
Complete market specific documents to open document markets, if any	X	X		Examples: tax documents for Japanese government bonds
Custodian accounts opened for counterparty pairings	X			
External counterparty access authorization	X	X		
Provide operating documents, such as the funds transfer and transaction origination process and authorized signers list, etc		X	X	

Table C provides an overview of the **Triparty Custodian Onboarding and Account Opening Implementation Checklist**, along with further comments and explanations where applicable.

Table C: Triparty Custodian Onboarding and Account Opening Implementation Checklist

Onboarding Activity	Pledgor	Secured Party	Commentary / Explanation
Formation documents (articles of incorporation, certificate of formation or LLC/LP agreements, extract from the business register), including physical address	X	X	These legal documents are required to set up an entity. The client needs to provide this documentation to enable the custodian to identify the client, the purpose of the relationship and ensure it is meeting regulatory obligations
Operating agreement, including list of officers and owners	X	X	An operating agreement establishes guidelines for an LLC in the same way that articles of incorporation govern the operation of a corporation. Common provisions in an LLC agreement include the statement of intent, its business purpose, the time period it will operate, how it will be taxed, new LLC member admissions and member capital contributions
Legal entity identifier (LEI)	X	X	The LEI is a unique global identifier of legal entities participating in financial transactions. The identifier is formatted as a 20-character, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization
Countries of customer's significant business operations	X	X	It is important to identify countries of operation to ensure there are no links to sanctioned countries or high risk locations that may increase the risk of money laundering or terrorist financing
Signature list (notarized in original if possible or a copy signed by a company secretary)	X	X	A list of authorized persons including evidence of their specimen signature is required to confirm that those signing documentation on behalf of the client are executed by approved signatories
Financial statements/annual report	X	X	Required in order to review creditworthiness of the client. These are generally required to be audited by an independent third-party auditor
Tax documents (W-8/W9/FATCA self-certification form)	X	X	Required to confirm tax identification numbers and correct tax application
Prospectus of fund, if applicable	X	X	Required to obtain additional information on the fund that has not been obtained in the formation information
Investment management agreement, if applicable	X	X	A formal arrangement between a registered investment advisor and an investor stipulating the terms under which the advisor is authorized to act on behalf of the investor to manage the assets listed in the agreement. The agreement establishes the extent to which the advisor may act in a discretionary capacity to make investment decisions based on a prescribed strategy
Regulatory license (entry in the relevant regulator's website is sufficient, if regulated)	X	X	Any license, consent, authorization, confirmation, permission, approval or authority issued or given to the client by a regulatory body – eg, the Securities and Exchange Commission
Markets in Financial Instruments Directive (MIFID), as applicable	X	X	MIFID is a regulation that increases the transparency across the European Union's financial markets and standardizes the regulatory disclosures required for particular markets
Anti-money laundering (AML) policy, as applicable	X	X	Review of this policy will help a custodian understand how a client adheres to AML
Anti-money laundering questionnaire (AMLQ), as applicable	X	X	AMLQ (a Wolfsberg questionnaire may be acceptable in some instances)
Office of foreign assets control (OFAC) questionnaire	X	X	OFAC administers and enforces economic sanctions programs primarily against countries and groups of individuals, such as terrorists and narcotics traffickers

## Technology Considerations

The adoption of technology in the onboarding process has many benefits, including time saving, cost reduction, improved data quality, automation of data and streamlining of processes, to name but a few. This section outlines some of the technology capabilities available to enhance the onboarding process for custodians and their clients.

- **Document negotiation**
  - **ISDA Create:** An online solution that allows firms to produce, deliver, negotiate and execute derivatives documents online. The system captures, processes and stores data from these documents, providing users with a complete digital record.
- **Document digitization**
  - **Document management systems:** Convert, capture and store paper copies to digital versions and apply optical character recognition to identify key terms.
- **Workflow tools**
  - **Relationship management interface:** Allows for a roles-based and digital onboarding process.
  - **Due diligence tools:** Help clients streamline their due diligence, KYC and ongoing AML processes with the use of automation and standardization.
- **Artificial intelligence (AI) capabilities**
  - **Virtual assistant features:** Optimize client conversation process and provide additional channels of communications.
  - **Automated compliance:** AI-based verification and screening capabilities.

## COST-BENEFIT ANALYSIS

This section outlines suggested metrics as a starting point to measure and track the onboarding process as it stands today compared to a future state with efficiencies built. It serves as a pro-forma cost-benefit analysis to help assess the current scenario and also showcase how a more coordinated and organized approach to custodial onboarding may have positive economic effects in the future.

Since resource costs and tasks may differ depending on whether a firm is representing the secured party or the pledgor, the inputs can be customized. For example, KYC and AML tasks may be more resource-intensive for secured parties versus pledgors, or the hourly full-time equivalent (FTE) cost may be \$100 versus \$50.

When reviewing the pre-efficiencies resources compared to post-efficiencies resources, consider the time spent by a firm's team members performing the following tasks: emailing, meetings, tracking down documents, responding to both internal and external requests and enquiries/calls, negotiating documents, sending settlement instructions, performing credit review, providing internal project updates or reports, testing, etc.

Then, estimate the post-efficiencies resources if the firm could centralize KYC documents to reduce the time to obtain documentation, use an electronic negotiation tool to decrease time to market and legal resources, and provide a centralized tracker to reduce time responding to internal inquiries, etc.

Inputs and estimates can be customized in the following table. The phases shown are a representation of a custodian's standard onboarding process. Each phase may not apply to each firm's onboarding process. Therefore, the phases can be adjusted to meet the requirements of individual firms.

### Cost-benefit Analysis Instructions

- Enter the average hourly FTE (inclusive of benefits and overhead) for each of the custodial onboarding functions. If a role/specific responsibility does not exist within the firm, then skip that entry. An average cost may be calculated if there are multiple team members within that function.
  - Custodian onboarding coordinator (COC).
  - Legal negotiation, inclusive of internal and external resources.
  - Credit review, including KYC/AML document coordination.
  - Testing/onboarding.
- Enter the estimated project costs to coordinate the custodial onboarding structure going forward as a one-time cost in 'Year 0'.
- Enter the number of new relationships that will be added each year. Start with current/Year 0, and then estimate increases based on future UMR and other additional segregated accounts expected.

- Enter the number of hours per relationship that each function will take. If the firm doesn't have that respective role/specific responsibility in Year 0, then include that function into the top entry for COC. In this template, the following responsibilities are all associated with the COC average hourly FTE rate:
  - COC, which includes the overall management of the program going forward, such as tracking updates and internal and external communication.
  - Providing documents is specific to the disbursement of account set-up documents requested by the custodian.
  - Initial account set-up includes all operations related to communication with internal and/or third-party resources regarding settlement and reporting.
  - Post-onboarding activities include any post-production follow-up and/or changes.

Ongoing metrics post-onboarding will be tracked going forward as key performance indicators (KPIs).

<b>Cost Benefit Analysis: Inputs</b>	
Custodian Onboarding Coordinator Hourly FTE Cost	
Legal Negotiation Hourly FTE Cost	
Credit Review Hourly FTE Cost	
Testing/Operations Hourly FTE Cost	
Project Implementation Costs (in Year 0)	

Pre-efficiencies/ Year 0	
Number of relationships	

Post-efficiencies/ Year 1	
Number of relationships	

Post-efficiencies/ Year 2	
Number of relationships	

Onboarding Costs	Number of hours per Relationship	Cost	Number of hours per Relationship	Cost	Number of hours per Relationship	Cost
Custodian Onboarding Coordinator						
Providing documents						
KYC/AML Review						
Credit Review						
Contract Negotiation						
Initial Account Set-up						
Testing Connectivity						
Post Onboarding Activities						
<b>Total Annual Cost</b>						
<b>Total Cost</b> (with project implementation costs in Year 0)						

<b>Ongoing Metrics Post-Onboarding</b>	<b>Year 1</b>
Number of Adjustments to eligible collateral schedule (Triparty)	
Number of support tickets and complaints, per relationship	

<b>Year 2</b>

## CONCLUSION

Onboarding custodians for segregated accounts will always be an integral part of derivatives trading and counterparty risk management. Although the process can be manual, lack efficiencies and be time consuming, there are opportunities to make the process less resource-intensive. Firms, including those on the buy and sell side, need to assess their current process, identify areas for improvement and conduct a cost-benefit analysis in order to implement a successful implementation project and make strategic improvements to collateral management operations functionality over the longer term.

We appreciate the subject matter expertise of the ISDA Collateral Management Transformation Custodial Onboarding Working Group, supported by the following ISDA member firms:

**Brown Brothers Harriman & Co.**

**JP Morgan Chase & Co.**

**Clearstream Banking**

**Société Générale**

**Deloitte LLP**

**State Street**

**Euroclear**

**Bank of New York Mellon**

**Franklin Templeton Investment Management Limited**

### ISDA Contacts:

**Vernon Alden Smith**  
Director, Collateral Initiatives  
44 (0)20 3808 9719  
valdensmith@isda.org

**Amy Caruso**  
Head of Collateral Initiatives  
646 207 2025  
acaruso@isda.org

## ABOUT ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 79 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In

addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: [www.isda.org](http://www.isda.org). Follow us on [Twitter](#), [LinkedIn](#), [Facebook](#) and [YouTube](#).